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EFFECTS OF THE KOREAN OPERATIONS ON THE ECONOMIC SITUATION
OF THE CHINESE COMMUNIST REGIME
(Contribution to NIE-32)

The following analysis of the effects of operations in Korea on the economic situation of the Chinese Communist regime has been prepared on short notice on the basis of immediately available information. In the time allotted us, we have been able to muster very little reliable evidence as to the direct impact of the Korean war on the economy. We believe that the fragmentary indications given below could be supplemented by a good deal of additional material if time and resources were to be allocated to a more extended study of this problem.

Summary

Immediately available evidence does not indicate that so far the Korean conflict by itself has had much adverse effect on the economic situation of the Chinese Communist regime. However, while prosecuting the Korean war, the regime has been confronted with continuing inflationary pressures, has become dependent on the Soviet Orbit for some military and civilian requirements, and, because of Western export controls, has been denied access to some raw materials and machinery and is threatened with the loss of access to others. The regime has also, because of the war, been prevented from carrying out much-needed rehabilitation and reconstruction programs throughout the country. It has been concentrating on increased industrial production in North China and Manchuria. However, this is largely military, and purchases of materials and equipment for such purposes might otherwise have been used to improve the economy.

General

Even before the Korean war, the new Chinese Communist regime was presented with widespread economic problems. There was a great shortage of civilian consumer goods and capital equipment. A number of industrial facilities were idle because of improper maintenance and lack of raw materials. In many instances the machinery was damaged beyond repair or had been removed from the plants. This occurred, for example, during World War II with the important power and manufacturing equipment in Manchuria. Despite this situation, the Communist regime was compelled to devote its major attention to relief measures to aid millions of unemployed and particularly to military preparedness and operations—all before the Korean conflict.

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The national economy had, therefore, already been seriously affected by defense and reconstruction requirements before the Korean war and there had not yet been opportunity for a postwar readjustment of agriculture, labor and industry. However, it should be kept in mind that predominantly agricultural countries, particularly China, are not as susceptible to economic dislocations due to war as are industrially advanced countries.

Industry

Although the rehabilitation of industry in Manchuria has been speeded up, including some plants and equipment removed from Shanghai and Tientsin, China's military effort has undoubtedly retarded the non-military portions of her industrial reconstruction program. There has been increased activity in industrial plants to minimize the effects of export controls, particularly in the iron and steel, machinery, metal products, shipbuilding, and textile industries supplying military needs.

Forty-three percent of budgeted expenditures in Manchuria is for industrial investment. Plans provide for an increased production of pig iron, copper, electric motors, machine tools, cotton spindles and looms. The value of the 1950 output of Manchuria's state-operated enterprises was estimated to be 195 percent of the 1949 output.

There was a four-fold increase in electric power consumption in Shanghai in November 1950 as compared with March-April 1950. Tientsin registered a 25 percent increase in September 1950 over the previous year with demand exceeding supply. Much of Shanghai's electrical machinery production was sent to Manchuria to replace Soviet removals.

The Chinese Communists are now operating about 33 main arsenals and about 400 minor arsenals, the latter being largely mobile repair plants. The North China arsenals are the major producers of munitions. The Mukden arsenal is the most important and is reported to be currently employing 20,000 workers and producing about 70 percent of all shells, grenades, and mines.

The more advanced and heavier types of machinery in China are mainly of Japanese, US, and UK origin. The Soviet Union cannot be of much assistance in supplying replacement parts, and there are indications that it is furnishing machinery and equipment.

Agriculture

The withdrawal of manpower and draft animals from Manchuria may result in a 10 percent reduction in the acreage of food crops seeded for harvest in 1951. Under normal weather conditions, this acreage can be expected to produce about 11.4 million metric tons which, together with an estimated carryover of about 800,000 metric tons, can meet the usual domestic civilian requirements of about 15.1 million metric tons. The relatively small uncovered military requirements can be met from the civilian supply.

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Present indications are that the food crop of China proper in 1951 will be 6 percent greater than in 1950. Should this estimate prove correct, the strategic position of food in China's plans need not cause any changes in policy. This does not preclude the possibility of the usual famines in certain localities resulting from causes not directly related to the Korean war.

Petroleum

Imports, almost entirely from non-Orbit sources, have always provided the major portion of petroleum products in China. These are now limited to supplies received from the USSR, as the Korean war has virtually eliminated all imports from non-Orbit sources. Total availability is estimated at not more than 1 million metric tons, including indigenous production of crude and petroleum substitutes.

China is neither economically nor militarily mechanized. Hence its economy is not sensitive to a decrease in petroleum supplies. Requirements and supplies may now be approximately in balance, but any further military requirements may necessitate additional imports from the USSR.

Labor

Because of its vast labor pool the economy of China has not been adversely affected by commitments of manpower to support the Korean war. With a total labor force of about 125 million males at present, an additional 50 million males over 10 years of age, and unemployment, there should be no shortage of labor.

Industrial workers in Manchuria increased from 1.2 million in October 1949 to 1.4 million in June 1950. There has always been a seasonal deficiency in agricultural labor in Manchuria, but if normal movements from North China interfere with military transport, the shortage can be met by the use of reserve military troops and the recruitment of additional women and youth in the area.

Soviet specialists have been employed in steel mills and metal industries, and in machinery plants in Shanghai and Tientsin.

Inflation

The Communist regime, even before the Korean war, had difficult financial problems. The Parity Deposit Unit (a newly invented cost-of-living index) and the price of rice had increased about 100 percent between January and March 1950, and the official price of Chinese currency dropped from JPY* 21,000 to JPY 40,000 for one US dollar. A steady improvement thereafter until December was reflected by a decline of 10

* Jin Min Piao.

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percent in the index and in the price of rice, and an exchange rate of JMP 30,000. As of 30 March 1951, the exchange rate moved upward to JMP 20,810 for one US dollar without a corresponding improvement in the cost-of-living index.

Victory bond sales were forced upon the business community and the public, and excessive penalties were instituted for tax evasion and delayed tax payments.

Inflationary pressure is also reflected in deposits of government and non-government bonds, bank deposits, and loans to industry. It is estimated that government revenue from all sources covers only about 40 percent of state expenditures.

Foreign Trade

Chinese imports from non-Orbit countries for the first six months of 1950 are estimated to have been US \$129 million, and for the last six months, US \$370 million. It is not possible to assess with accuracy the value or the volume of imports in either period devoted to the support of the Korean war, but it may be assumed, considering their nature and the circumstances of purchase, that at least 50 percent was used primarily to satisfy military requirements for a fighting war as opposed to maintenance of forces in being. Normal import and consumption patterns have obviously been altered to meet the enlarged military demands.

It is estimated, for example, that about 80,000 long tons of crude rubber, normal peacetime requirements for about three years, were imported in 1950. This represents an expenditure of more than US \$100 million, which probably resulted in very little if any benefit to the national economy. Ferrous and nonferrous metals, manufactures, machinery, and medical and pharmaceutical preparations with a total value of about US \$125 million and from non-Soviet sources could probably be listed as military rather than as civilian requirements. A normal peacetime import requirement of about one million bales of cotton was reduced to about 400,000 bales during 1950. Strategically important imports during the last half of 1950 were chemicals, pharmaceuticals, rubber, petroleum products, sulphur, vehicles and parts, metals, tires, railway rails, copper, tinsplate, precision instruments, machinery, textiles, and textile fibers.

Many of these items were purchased in quantities greatly in excess of either normal requirements or of the capacity of processing facilities, some were purchased at prices higher than the world market warranted, some were smuggled into the country, and some moved on to the Soviet Union in exchange for manufactures. The extent to which stocks have been built up in China on which her industry can draw if all non-Orbit supplies are cut off depends on what portion of China's recent abnormal imports has gone on to the USSR. Unfortunately good evidence is not available to estimate this

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movement. (Nearly all tungsten concentrates, antimony, molybdenum, and tin production moves to the USSR.)

Internal Transportation

A temporary effect of the Korean war on rail transport in China was the suspension of some non-military traffic on trunk lines during the summer and autumn of 1950 when there were large initial troop movements to Manchuria and Korea. There are no indications that subsequent military traffic in China has had an appreciable adverse effect on the movement of essential or important commodities.

Economic Development Program

No over-all rehabilitation and development program has been announced, although the Chinese Communists have indicated that a Soviet type of Five-Year Plan is in preparation.

Aid Obtained from the USSR

The most significant aid which China has been receiving from the USSR is in the form of petroleum products, formerly imported from non-Orbit sources, pharmaceuticals and munitions, and other military supplies and items of indirect military usage. Such supplies and items, received in exchange for Chinese foodstuffs and raw materials, consist of aircraft, liquid fuels, firearms, radio equipment, tanks, trucks, automobiles, and steel plates.

There is no evidence that Soviet railway equipment has been obtained beyond that which would have been secured under normal peacetime conditions or under trade agreements concluded before the Korean war. Except for some technical assistance and items of production equipment and machinery, no aid has been requested from the USSR in connection with ferrous and non-ferrous metals. China does receive some refined metals from the USSR in exchange for minerals.

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